



Cancel the Debt

Capitalism in Crisis - The Socialist Solution to Market Madness

By Brian O'Boyle

Brian O' Boyle is a professional economist who works at St Angela's College Sligo. He was a founding member of the Sligo Workers Alliance which campaigns against ongoing attacks on public sector workers. He is also a leading member of the Socialist Workers Party and the United Left Alliance.

Brian can be contacted at B.OBoyle1@nuigalway.ie.

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Introduction

Three years ago the entire capitalist system was on the verge of **collapse**. Financial powerhouses like Lehman Brothers were falling like **dominoes** and the global credit system had suffered serious cardiac arrest. **For weeks**, market participants looked on helplessly as global leaders scrambled to **save** their economic system. Trillions of dollars were released as **liquidity**, and this coordinated action along with promises to defend the **international banking system** staved off the worst excesses of the crisis - **at least momentarily**.

Three years on and the decision to put the interests of **global capital above national sovereignty** are coming home to roost. Having taken on the **debts** of the international bankers, national governments are finding **themselves** increasingly unable to cope. Ireland is merely one example of the **complete capitulation** to international capital, and as we go to print **there is a massive debt crisis** engulfing the Eurozone, a **sovereign debt crisis in the USA** and a growing awareness that none of the international **regulatory organisations** are able to stabilize the situation.

Capitalism is once again in serious difficulty and to understand **the origins** of this crisis it is not enough to focus on 'greedy bankers' or the 'shortsighted people' who were supposed to regulate them. **Capitalism is a system based on the exploitation of human labour and the amassing of this (surplus) labour in a process of accumulation.** Without accumulation **the entire system grinds to a halt** and without a decent profit-rate, **capitalists will not invest in the first place.** To understand this crisis **one must therefore go to the heart of the economic system** and although **the latest crisis is undoubtedly the result of accepting the debts of private capital**, we must go further back to understand why so much debt had been **built up in the first place.**

To answer this question we need to start in the late 1970's as a **new form of capitalism emerged as a response to a global slowdown in the rate of profit.** Known as *neoliberalism*, this new liberty for capital allowed **those who were lucky enough to own the factories and machinery to engage in an extremely severe form of exploitation.** Internationally, capitalists **went on**

the offensive, and over the course of the next twenty five years, workers saw their share of national income fall from around 75% of gross domestic product (GDP) to around 63% (Stockhammer, 2009: 10).

Real wages were stagnating at the very time that governments were cutting back on services and to sustain their economic system capitalists (banks etc) found themselves lending ever greater quantities to those without capital. This was obviously unsustainable. And when the credit crunch happened in 2008, it was merely the most visible sign of an economic system that was increasingly unable to function. All of the debt that has built up in the system has resulted from neoliberal restructuring, and there are currently four interlocking problems driving the economy ever deeper into recession.

Alongside the sovereign debt crisis, there is a lack of confidence in the international regulatory institutions (ECB, FED IMF etc), a slowdown in the rate of growth and markets that are now so jittery that \$3 trillion was wiped off the stock exchange in the course of just one week (1st- 5th August 2011).¹ Most worryingly for the ruling class is the fact that global investment is continuing to stall. According to the Purchasing Managers Index there has been more than a 10% drop in US manufacturing investment at the same time as the PMI fell in Asia (including China), Europe and the Indian sub-continent.² Without investment capitalist economies simply cannot grow and without growth there is little chance of nation-states paying off their creditors.

Capitalism is thus in serious structural difficulty and as the crisis rumbles on it casts serious doubt on the ability of the Irish ruling class to escape their own difficulties. Like their international counterparts, the Irish elite sought to solve the economic crisis by putting the costs onto Irish workers. This strategy unfolded in three discrete stages as the government initially underpinned the banking system with tax payers money, before using this as a pretext for a massive attack on workers conditions and the ceding of all sovereignty to international capital (under the terms of the IMF/EU deal). In essence, the Irish rich want to achieve two things. First off, they want to curry favour with international capitalists as they see their future as absolutely linked to inward (foreign direct) investment and exports to foreign markets. Secondly, they want to become 'more competitive' as it will only be by out-competing their European neighbours that Irish capital will get back to profitability. Both of these strategies involve severe attacks on ordinary people and it is in this context that the Irish establishment has been telling the population so many lies.

Alongside lies about Ireland having the ‘cheapest bailout in history’³ **two of their most common porky’s** are that (1) any deviation from the **policy of** paying bondholders would be catastrophic as there would be **no money in** the ATM’s, and that, (2) no matter what else happens, we **must have** savage cuts to public spending as the country is effectively broke. **In the** first case it is worth remembering that the primary reason that the **country** is in difficulty is because we have been forced to accept the **losses of the** bankers. Without this burden the country would never have needed the **IMF** in the first place - and so the Irish rich are arguing that we **must accept** loans from capitalist institutions (IMF/EU) precisely because **we are** struggling to pay the debts these same institutions originally **lumbered us** with.

The second assertion is usually applied alongside the first to **convince us** that even without the bankers debts, we would still need to borrow **as the** size of our deficit (taxes - spending) is around €18 billion. There is **a grain** of truth in this as the government is taking in around €18 billion **less than** it spends,⁴ but what this intentionally leaves out is the fact that **private** savings have increased massively during the economic crisis. **The reason** for this is that capitalists have responded to the crisis by **effectively** engaging in an *investment strike*. According to the Department of Finance’s selected economic indicators (table 1) over €24.5 billion was saved **in the** year ending in 2010 at the same time as fixed capital formation (investment) fell from around €28 billion (2006) to around €11.8 billion (2010).⁵ In capitalist economies it is hardly surprising that the **owners of** capital have the primary ability to save and invest. Workers **savings are** miniscule in comparison those who own stocks and factories and **the key** problem is that capitalists will only invest if they expect a **reasonable rate** of return. In an economic boom this rate is generally expected to **be high** and investment can proceed accordingly. However when an economic **crisis** occurs, capitalists will normally respond by pulling back on much of **their** planned expenditure. This then means that economic activity **is** significantly reduced, and as every State relies on this activity to **pay for its** services, the real problem is not the shortfall in the public finances, **but in** the levels of economic activity that are supposed to pay for these.

Despite its economic difficulties, Ireland still has an economy of **around** €150 billion and the public deficit is therefore not a technical **matter of** taking in €34 billion for a State that costs €52 billion - it is a **highly** political decision to leave private wealth in the hands of the **capitalists’**.⁶ Along with the obvious political implications, this decision relies on **the** unshakable belief that the ‘government cannot create employment **but**

only the conditions for capital to create employment’.⁷ This rather innocent statement effectively means that government must do everything in its power to encourage capitalists to begin reinvesting - and this in turn means attacking the pay, conditions and social services of the population at large. This explains why the vast bulk of the ‘correction’ has fallen on workers (and the vulnerable) as successive governments has set about ‘creating the conditions’ for ‘competitiveness’ and ‘profitability’.

This can be seen in the favouring of spending cuts (which always hit the poor) over general taxation, the favouring of income taxes over taxes on wealth, and the shameful attack on public servants as overpaid ‘good for nothings’ that are somehow shielded from the worst excesses of the crisis (despite taking an average of 15% pay cuts).⁸ Time and again working families have been made to take the brunt of the ‘adjustment’ and this is both manifestly unfair and economically insane. For evidence of this one need only read the latest *McCarthy Report into the Sale of State Assets* which has revealed that although the government has already engaged in a fiscal (taxes and expenditure) adjustment of some €20.8 billion, the gap between budgetary receipts and spending has actually increased from €12.7 billion in 2008 to almost €19 billion in 2010.⁹

Table One: Ireland’s Economic Adjustment

Year	Adjustment (Billions)	Budget Deficit
2008	€3	€12,713, 820
2009	€11.8	€ 24,640,971
2010	€6	€ 18,745,333

Source – Department of Finance and the National Development Plan 2011-2014.

Cuts on this scale are unique in the Western economies, as they seriously depress the levels of what economists’ call ‘effective demand’. Pay cuts and reductions in social welfare hit the people who are most likely to spend, and as they become less able to buy goods and services, there is a strong signal that now is not the time to reinvest. It is a vicious cycle as workers lose pay, capitalists lose confidence and reinvestment continues to decline. Without this investment the Irish economy will continue to stagnate, and as the global economy continually falters, it is becoming increasingly likely that the ruling class’s strategy is coming off the rails.

Over the last three years they have consistently told us to take the pain in order to get a better future. But as the crisis only deepens it is becoming ever more obvious that Irish workers will have to fight back.

If we want a decent future for our children we will need to take on the power of the ruling class, as it will only be in this way that we can reclaim the wealth that they are currently hoarding. Without this wealth we will never be able to re-stimulate the economy and this means immediately renouncing the IMF/EU deal, reclaiming our natural resources and engaging in a massive stimulus programme to get the country moving again. All of this will ultimately lead to a challenge to the 'logic of capitalist society' - and to understand why this is necessary, we must understand that the rich will always benefit disproportionately in the 'good times' and try to make the poor pay for the 'bad times'. Before this, however, we must take a closer look at the increasing financialisation that has been the most obvious and immediate cause of the global economic crisis.

Neoliberal Financialisation

Most commentators agree that changes in the world of finance have been at least partly responsible for the global economic crisis. Over the last thirty years financial markets have come to dominate large parts of the global economy and central hubs like London and New York have become so important, that government policy had been completely re-tailored to suit their needs (Brenner 2009). Instead of focusing on competitive products, the US and the UK have concentrated on making their financial services attractive for speculators, and one of the outcomes has been a massive increase in the levels of profits flowing to financial institutions (ibid). Globalisation and improvements in telecommunications have helped to drive this process, as trillions of dollars slosh around the globe at the click of a button. Indeed, the levels of financial transactions now dwarf trade in real goods and services many times over.¹⁰ But there is something very strange about this phenomenon when one thinks about it closely.

Unlike capitalists who make their money by producing things that are useful to people, financial capitalists produce nothing more than electronic spread sheets. Working in finance essentially means clicking buttons on a computer screen and yet somehow this very unproductive task enables bankers to command salaries that most of us could only dream about. In reality banking is parasitical on the real economy as it merely moves wealth created by human labour from those who want to save it to those who want to invest it. Banking is ultimately a way for society to make sure that all of the wealth created is used productively, and bankers are supposed to get their payments from fulfilling this role in an efficient manner.

Banking is therefore a precarious business as financial institutions receive wealth from one group before lending it out to another group for anything up to fifty years. Traditionally this has ensured that they were very conservative institutions, only lending out what they took in in deposits - and only to those they deemed to be certainties. All of this changed, however, with the emergence of global neoliberalism¹¹, as 'free capital movements' allowed new ways of accessing funds and new avenues for making profits. Instead of waiting for money to be deposited, banks could now scour the earth looking for cheap credit, and instead of waiting up to fifty years to be repaid; banks began to repackage their loans before selling

them on to investment banks (Goldman Sachs, Lehman Brother's etc.), Banking now became a massive casino, as money was borrowed at three month intervals, lent out over decades, and sold on to investment banks at a tidy profit.

Lending credit borrowed in financial markets is far more risky than lending deposits (as it must be repaid on the agreed date), and a whole industry emerged to facilitate this phenomenon. Securitisation is the technical term for lending out (thousands of) mortgages, packaging them together and selling them onto investment brokers - and terms like hedging, collateral debt obligations (CDO's) and credit default swaps (CDS's) merely refer to the ways that bankers try to minimize the risks that they won't get paid back.¹²

The seeds of the crisis

In reality risk has been massively increased in the neoliberal phase of investment banking, but the 'whizz kids' on Wall Street were proclaiming that this new model was actually safer, as their exotic instruments (CDO's, CDS's etc.) were designed to share out risk by diluting it over many people. This was later to be revealed as utter nonsense, but so long as the banks were making massive profits there was nothing but praise from our political leaders - and over time the structure of the economy was shifted to facilitate financial speculation (Lapavistas 2009). Lapavistas notes that a combination of free capital movements (allowing billions in cheap credit to flow from China and Germany) and stagnant real wages (the amount of real things wages can buy) allowed finance to become a much more important part of ordinary people's lives. Banks increasingly made their money from lending to workers, and as the ordinary markets for mortgages and credit began to get saturated, bankers (particularly in America) began to look to 'subprime markets' to make their returns.

'Subprime' refers to people who have low (or insecure) sources of income and/or bad credit history. These are the most exploited and oppressed people in the capitalist system, and as the least 'credit worthy' people, subprime mortgages were always given at very high rates of interest. Even the 'dogs in the street' could see the risks in asking people with very insecure incomes to pay really high interest rates, but again the 'financial geniuses' thought they had the answer. High risk meant that there would be big profits if these people managed to pay back their loans - and the banks could always seize (increasingly valuable) their houses if these people failed. The housing bubble was in full swing and the bankers felt that this would

allow them to get their money back come what may. Unfortunately they never twigged that what was driving the higher prices was the frenzied competition to lend to the poor, and that any small increase in the inability of these people to pay back their loans would cause a massive surge of houses on the market (Harman 2008). In the event over two million American families simply could not afford to pay their mortgages and as the dam burst it became apparent that the unrestrained greed of the bankers might cause a problem that could bring the entire system to a crashing halt.¹³

The poison spreads

Once the high street banks had discovered the benefits of repackaging mortgages they cared little about what happened to them afterwards. Instead of waiting thirty years to get repaid, they accepted a set amount from one of the investment banks, and gave little thought to what happened to the mortgage once it left them. In practice the investment banks would further repackage mortgages (i.e. maybe put a thousand mortgages from Ireland together with a thousand from Finland), get them rated for risk, and sell them on again. This meant that it was extremely difficult to know exactly where all of these mortgages were ending up as they were endlessly 'sliced and diced' and sold onto all manner of institutional investors (pension funds, hedge funds, other investment banks etc.). This was apparently a way of reducing risk, but no-one wanted to be holding any of the dodgy mortgages once they stopped paying. Everyone wanted to pass on the risk to their competitors and when the subprime crisis exploded, all of the banks became extremely defensive, believing that all of the others had damaged balance sheets. No one would lend, and the market for credit went from an avalanche to a trickle within a matter of days.

This was extremely dangerous for the system overall, as capitalism relies on an efficient system of credit to facilitate borrowing and lending. Producers grant credit to wholesalers, wholesalers grant credit to retailers and retailers grant credit to many of their customers. People must purchase inputs before they themselves get paid, and any break in this flow of credit has the potential to bring the system to a shuddering halt. This is why central banks forgot all of their preaching about the virtues of free markets as they clamored to save their individual financial systems. Despite their rhetoric over the past thirty years, national governments poured vast sums of the world's resources into stricken financial institutions no matter what the human cost.

According to *Bloomberg* the amount that US tax payers will eventually spend on bailouts is some \$9.7 trillion (\$9,700 billion). This is alongside the UK and other European countries that have already spent \$2 trillion, and the \$14.5 trillion (33%) of the world's value (companies) that has already been wiped out by the crisis.¹⁴ To put this in context, the United Nations Food and Agriculture Organization (UNFAO) has estimated that a mere €30 billion would be enough to completely solve the global hunger epidemic.¹⁵ This is a mere drop in the ocean compared to the resources spent on the financial crisis and it shows the real priority of the ruling classes across the world. Whilst hunger and poverty are allowed to fester, the idea that the rich might lose some of their wealth is never tolerated, even if it means causing pain to the majority of the world's citizens.

Chasing profits whatever the cost almost brought the entire global system to a halt, and commentators who focus on the rise of financialisation are not wrong when they highlight the lack of regulation and/or the selfish actions of greedy bankers. The unrestrained pursuit of profit has been a key factor in unleashing the devastation of the last three years, but it is worth remembering that someone had to make the decisions to free up the 'capital controls' in the first place. As much as they would like it, bankers are not in a position to deregulate the markets for money and finance. This is a political action that must be taken by government - and to fully understand the emergence of financialisation one must therefore move from the markets for money into the nature of the system as a whole.

A Crisis Ridden System

Although this is a particularly severe economic crisis it is by no means unique. The last 150 years have been characterised by continual economic upheaval, and no matter what the policy makers try to do, the threat of crisis is never far away.¹⁶ Mainstream economics is ill equipped to handle this reality as it understands capitalism as a harmonious system continually returning to 'balanced equilibrium' as it strives to meet our human wants. In this rosy picture, people express their wishes through the market, whilst capitalists interpret these wishes, producing only those things that people want to buy. Equilibrium is reached when all goods and services are purchased, and if there is anything left over, prices will adjust until everything is gone. Supply is therefore always equal to demand and the system is inherently stable and fundamentally healthy.

This narrative is still being taught in our universities today, despite the fact that the supply of Irish workers is currently 450,000 greater than their demand. This represents one out of every six workers and it means that Irish output is at least 15% lower than it should be. To put this in monetary terms, we are down about €28-30 billion on our output potential,¹⁷ and to understand exactly why this happens, it is necessary to move away from the wishful thinking of the economic mainstream towards the writings of Karl Marx.

Writing in the 19th century, Marx noticed that capitalism is a very peculiar type of social formation, as almost all of the output produced is not for the 'use' of those who produce it. In every society people must work in order to survive, and in this regard, capitalism is no different. However unlike 'hunter-gathers' or 'primitive farmers', people in capitalism generally work for someone else, producing things they do not own (and will not use) in order to receive a wage. Human labour is only truly effective if it takes place with tools and modern machinery, and in capitalism it is those who own these 'means of production' who decide whether production will take place - and whether workers will get employed. Rather than work being done to satisfy our human needs, workers are hired to make profits for employers and this is the driving logic of the capitalism system. Human needs are only satisfied insofar as doing so contributes to capitalist profiteering and this exposes the lie at the base of mainstream economic

ideology. It is not consumers (or workers) who make the key decisions, but those who control the factories and machinery - and to understand how capitalists come to own these things, Marx makes a number of important points.

Workers are the source of all profits

Firstly he points out that capitalism is a system characterised by a surplus in the sense that there is always more produced in a given year than the immediate needs of the community (this is obvious if one thinks about the amount of savings in the world). Secondly, he notes that despite society creating this surplus through its collective labour, not everyone gets an equal share. Indeed, the vast bulk of society's savings are extracted by capitalists' in the form of profits - and this leads onto the third point, which is that the small number of people who own the capital (around 1-2% of the population), could never have accumulated it through the fruits of their own labour.

The average Western industrial worker produces around €3.2 million (at today's prices) in a working lifetime and yet has very little to show for it at the end of their lives.¹⁸ On the other side, someone like Bill Gates has probably produced less than €1/2 million (through his own labour) and yet he commands a fortune of somewhere in the region of €40 billion (the equivalent of the work of 20,000 people working every day with no reward for 40 years). Clearly it must be the case that the tiny group that own the 'means of production' must have got them by harnessing the work of the wider community, and so *Marx argues that the source of all profits, savings and investment in capitalism is the unpaid work of the working class.* Workers get paid for a portion of the work that they do and the rest of this work becomes the capitalists' profit. This is then invested in plant, machinery tools etc., and so all of the capital that we see around us has really been created by extracting wealth from the mass of working people.

Marx calls this process *exploitation* and it allows him a decisive advantage in understanding why capitalism continually plunges into crisis.¹⁹ Writing in *Capital* (Vol III), he argued that "the last cause of all real crises always remains the poverty and restricted consumption of the masses...compared to the...productive forces" (1981: 568), and in a very real sense it is the reality of class exploitation that is the root cause of crises in capitalism. In a non-class society, production would be done according to a democratic plan and workers would receive the full rewards for their work. More importantly, production would be done to satisfy *human needs* and because

of this supply would necessarily equal demand and economic crises (at least of this nature) would be a thing of the past. In capitalism on the other hand, the system can only remain healthy if each capitalist can sell *all* of their output. Workers can only buy a certain proportion of the goods and services (as their wages are only part of the overall product) and so the key decisions fall to capitalists in terms of whether or not they should invest.

Capitalism is based overwhelmingly on the profit motive and if even a couple of capitalists decide that investing in production is not likely to yield a profitable return they will scale back on their investment causing a buildup of unsold machinery and buildings etc. Capitalists producing these goods will then find that they have 'overproduced' for their levels of demand as they may have expected to sell €20 billion worth of capital goods and can only sell €10 billion. These capitalists will inevitably scale back on their production, sacking workers in the process and reducing demand throughout the system. Sacked workers and frightened capitalists do not make for good consumers, and all of a sudden, goods' pile up in warehouses and capitalists' decide that the best thing to do is hoard their profits and/or begin to gamble on the stock exchange. This is an ever present danger in capitalist production, especially as there is a general tendency for profit rates to decline over time.

The tendency for the profit rate to fall

The drive for profit is not only related to the exploitation of workers but to the capture of markets, as capitalists compete with each other to maximize their individual returns. Competition means that capitalists are not only concerned with the mass (amount) of their profits, but with how this total profit relates to the amount of capital they have to invest – the profit rate. Capitalism is a mystifying system as it seems that profits come from a combination of workers and machinery. After all, capitalists must pay out for both of these inputs if they want to make a profitable return. Yet, once we understand capital as coming from 'yesterday's unpaid labour', things should become a little clearer.

According to Marx's 'labour theory of value' the price of everything in capitalism depends on the average amount of effort it takes to produce it. If it takes someone 10,000 hours of 'socially necessary labour'²⁰ to produce a machine then you will have to offer this same amount of effort to get it from them (essentially producing other goods to the same value, selling them for money and buying the machine). Every capitalist who brings a machine to the market expects to receive its full value - and if a

machine costs them €1 million to produce they will not give it to you for any less than this. This means that capital will cost you exactly as much as you can get from it in production, and machinery etc. cannot be the source of profits.

Workers on the other hand come to the market with only their ability to work which they sell for a wage. Mainstream economics argues that workers sell their *labour* to capitalists but this is clearly incorrect when one thinks about it closely. If I work for *Golden Vale* producing cheese, cheese is the product of my *labour* but it is never mine to sell. Every square of cheddar I produce is already owned by the company and the reality is that I don't own my own *labour*, but only my *labour-power* or my ability to work.

If I actually sold my labour it would take me 40 hours to produce a quantity of cheese and I would only exchange it for 40 hours worth of effort. Exploitation would therefore be impossible and capitalists would quickly go out of business. That they don't relies on the fact that workers sell their *labour power* (a bit like horse power in a car) to the capitalist for an amount that is always less than the value of their *labour*. A worker may produce 40 hours worth of cheese with their actual effort, only to find that the wages they receive would only be able to buy back 25 hours worth of the products they have produced. The other 15 hours has been appropriated by the capitalist and this is the only source of profits in the capitalist system. Workers therefore add more value in production than it costs to acquire their services and they must be continually exploited to keep the system moving. Marx calls machinery etc. 'dead labour' and/or 'constant capital' to highlight the fact that if capitalists were to sack their workers there would never be another cent in profits made (their machinery would lie idle). Living labour must be constantly applied to these machines to generate profit and underneath all of the appearances it is therefore only workers that can give a return over and above the cost of their wages.

Because of this capitalism face a serious problem as competition forces each capitalist to accumulate more and more capital for each of their workers. Machinery is, after all, very productive and so can help a capitalist to make goods cheaper. But as we have already seen, the only source of profits in the system is 'living labour'. Capitalist competition means that over time the amount of capital spent on 'dead labour' increases quicker than that spent on 'living labour' and so there is a tendency for the profit rate (the very life force of capitalism) to fall.²¹

Capitalists can counteract this tendency by increasing the levels of exploitation, reducing the cost (labour time) needed to make machines, or reducing the wages needed to buy necessities, but there is still a tendency for profit rates to decline. Indeed, the more profit they make, the harder it becomes to continue profiteering, as more and more machinery is purchased to keep up in the competitive struggle. This is the Achilles heel of capitalist production and it explains why capitalism is constantly tending towards economic crisis. Capitalists do battle on two fronts and as they are forced to increase the proportions of their machinery they can only keep up their profit rates by attacking the living standards of the mass of workers. Without the class nature of capitalist production none of this would be necessary and it is therefore exploitation by a tiny elite that ultimately causes economic crises with all their terrible human costs. Understanding this makes it clear why our rulers insist that workers should always take the pain of adjustment - and as we shall see in the next section - neoliberalism was little more than a strategy by the ruling class to reassert their dominance in the last big economic downturn.

The Rise and Fall of Neoliberalism

Despite being characterised by a series booms and slumps, capitalism has had one period of reasonably prolonged stability. For nearly thirty years after the Second World War, capitalism was in a 'Golden Period' as real wages increased, profit rates were consistently high and the global economy was generally healthy.²² For many, the adoption of Keynesian interventionist policies had fundamentally stabilized the capitalist system.²³ Intermittent crises were widely thought to be a thing of the past. However this consensus was shattered in the early 1970's, as a combination of vast US deficits (to fund the Vietnam War), a massive hike in oil prices and the emergence of stagflation threw the system into crisis. Right wing commentators (such as Milton Friedman) chose to blame the Keynesians for meddling with the 'markets' and proceeded to go on the offensive - arguing that a return to free market economics was the only way to solve the crisis.

In reality, Keynesianism had never actually been fully implemented (save for massive spending on military equipment) and the real problem for global stability was a slowdown in the rate of profit.²⁴ According to Duménil and Lévy (2005), US profit rates fell from around 14% in 1965 to around 5½ % in the early 1980s, and this has been confirmed by numerous other studies.²⁵ The drop in manufacturing profits was even more severe, falling in the major industrial economies (US, Japan and Germany) from around 25% in 1965 to around 8% in 1980 (Brenner 2006). Clearly, this was to have major implications for the system as a whole, as profiteering is the only reason for capitalist production. Without an adequate rate of profit, capitalism simply doesn't function and 'neoliberalism' was the political project constructed to restore the rate of profit no matter what the cost.

Neoliberalism literally means freedom (liberty) for capital, and it was designed to further shift the balance of power away from the working class. Capital controls were lifted so that bosses could uproot their factories, threatening staff with the loss of their jobs and making them compete with Third World workers; social benefits were severely reduced so that capitalists could get away with paying fewer taxes; workers rights were undermined so that exploitation could increase; corporate taxes were

systematically reduced and governments began attacking trade unions (through privatization and legislation), whilst making sure capitalists remained 'competitive' (monitoring inflation and keeping caps on wages). This was all supposedly to allow the tide of economic recovery to raise all boats. But the reality was that neoliberalism involved a sustained attack on the gains made by workers in the 'Golden Period' so that capital could get back to making 'reasonable' profits.

On its own terms, neoliberalism was reasonably successful, as profit rates did partially recover from the early 1980's onwards (Harman 2007). However, the crucial difference was that successful accumulation was not emerging alongside increasing real wages, but as a direct result of increasing exploitation. According to Stockhammer "one of the hallmarks of neoliberalism has been the polarization of income" (2010: 10), and this is confirmed by the fact that wages as a percentage of output have fallen by over 10% since 1980 (ibid). In five of the six major global economies (US, UK, Germany, Japan, France) wages have fallen from around 75% of total output to around 63% and it was this ability to extract more value from workers that accounted for the revival of the global economy in the 1980's.

Neoliberalism thus (partially) solved the crisis of profitability with an increase in the rate of exploitation,²⁶ but the effect was a growing crisis of 'overproduction' as workers found that they were unable to buy the levels of goods and services they had purchased during the 'Golden Period'. Increasing profits was now relying on squeezing wages and the 'knock-on effect' was that capitalists who relied on workers to buy their products found their markets were rapidly drying up. Stockhammer notes that despite increasing profits, neoliberalism never stimulated a boom in investment (ibid: 3), and this suggests that industrial capitalists were never fully confident about their levels of demand.

This is confirmed when one looks at the figures, as according to AMACO for example, 'investment to operating surplus' (the levels of profit companies reinvest), actually fell from around 55-60% in 1960 to around 40-45% in 2008.²⁷ Part of the reason was an increase in dividend payments. But a more important reason was the deterioration in the levels of expected returns, as capitalists began to postpone productive investment in the face of falling levels of consumer demand. If this was the end of the story, capitalism would have returned to crisis almost immediately. However the rise of *cheap credit* that accompanied neoliberalism essentially *displaced the crisis from the real economy into finance at the*

same time as masking it, forestalling it and greatly increasing its final eruption.

Financialisation as the flipside of heightened exploitation

As part of their overall economic restructuring, both Thatcher (in Britain) and Reagan (in the USA) sought to strengthen their financial centers by increasing the value of their currencies. Capital was becoming increasingly mobile and the aim was to attract massive amounts of these new funds with into their respective hubs. This strategy was soon followed by governments across the globe and the effect was to increase the power of financial capital over its industrial counterparts (Brenner, 2009). A number of other effects also began to emerge.

Firstly there was a general surge into financial investments as corporations moved part of their retained earnings into banks and/or financial assets. The stock markets began to boom and this had a 'wealth effect' for those families who had the luxury of owning stocks and shares. Whilst there was a dampening effect on the consumption of workers, those with financial assets found themselves significantly better off, and this had the effect of off-setting some of the lack of demand suffered due to heightened exploitation.

A second important effect related to the massive increase in global credit as the world's resources were increasingly being saved rather than productively reinvested. This saving was particularly pronounced in Germany and China where both the government and the private sector were in surplus, but it was also true of private companies' across the globe.²⁸ Corporations were lining up to offer credit and this meant that the world was awash with cheap money available for those who wanted (or needed) to borrow it. Attacks on living standards coupled with the retreat of the welfare state meant that increasingly workers had to turn to credit as a way of making ends meet - and as Lapavistas makes clear - it is increasing indebtedness that really characterises peoples experience of neoliberalism,

In financialised capitalism ordinary working people have come increasingly within the purview of the financial system. Individual dependence on money as a means of payment (not only as a means of exchange) has become stronger as social provision has retreated in the fields of housing, pensions, education and so on. Access to money

increasingly dictates the ability to obtain basic goods... [And] the more individuals have been forced to rely on financial institutions the more...financial *expropriation* draws on a fundamental inequality between financial institutions and working people accessing finance (Lapavistas, 2009: 18).

Expropriation involves banks taking ever greater sums in interest payments and this was an extremely important avenue for profit making during the neoliberal era. According to Harman, personal debt in the United States rose nearly twenty-fold between the early 1980's and 2006, at the same time as the financial share of gross domestic product (GDP) increased more than six-fold (2008: 22). Increasingly, many of the big industrial corporations (General Motors, Ford, General Electric etc.) were turning to finance to supplement their profit rates. And even those that were not directly benefitting from this practice, were utterly reliant on financialisation to sustain their sales. Instead of workers buying goods and services from state transfers and/or higher wages, they were buying things with financial credit. Without this deluge of borrowing many of the goods would not have been sold and capitalism would have been in a permanent state of near recession. Alongside its function as a source of profit, finance was thus allowing heightened exploitation to be significantly prolonged as workers constantly borrowed in order to buy the stuff that they were producing.

Neoliberalism effectively became a massive pyramid scheme, and the fact that finance is parasitical on the real economy, meant that the only way to sustain the system was by continually creating financial bubbles (Brenner 2009). Unlike investment in real production, pouring money into financial markets merely leads to asset prices going up - and the more that gets poured in, the further prices move away from any real relationship to physical production. Whilst spending €1 million on new machinery allows society to produce more goods and services, gambling €1 million on the price of sterling only allows someone to capture *some of the value already created in the productive economy*. Finance creates absolutely nothing and this is one of the great contradictions of neoliberalism as bankers were able to pay themselves massive salaries (and bonuses) for doing nothing more than moving money around the globe. A combination of increasing financialisation (moving wealth from production to speculation) and increasing exploitation meant that the rich could continue to profiteer at the expense of the masses. But the long term cost was an economic system

that increasingly relied on creating bubbles (to give the privileged stock market wealth) and a mountain of debt. Workers could only sustain their consumption through capitalists' credit and when the 'subprime markets' collapsed in the USA, the stage was set for the biggest crisis for over seventy years.

This is the real source of the global crisis that is manifest today, and the more a given ruling class engaged in neoliberalism the greater the problems they currently face.

Ireland as a Pioneer of Neoliberalism

From the moment T.K. Whitaker wrote his famous *Programme for Economic Expansion* (1958), the Irish ruling class was committed to building the Irish economy on the back of foreign capital. Having tried to build their own capital base in the protectionist years of the 1930's and 40's, the Irish elites enthusiastically turned to the idea of foreign direct investment (FDI) as a way of developing the post-war economy.

Capitalism was booming across the globe and what better way to get some of these resources than to tempt them in with irresistible incentives. The Irish Development Agency (IDA) was given just this task, and the *First National Plan* was developed on the basis of specific incentives (*the Shannon Free Zone, The Manufacturing Rate of Corporation Tax* etc.) to encourage capital from abroad.

According to the IDA, Ireland has a population of around 0.8% of the European Union and yet it has secured over 8.4% of all US investment into the European continent.²⁹ This amounts to around \$165 billion in monetary terms, and there are numerous well known examples of multinationals locating in Ireland from the European headquarters of Google and Facebook to investments of over \$7 billion by both Intel and Pfizer.³⁰

Whilst Irish companies were paying 32% corporate taxation, foreign multinationals were allowed to keep 90% of their profits - and the idea of *transfer pricing* became a centre point of Irish industrial policy. This involves allowing foreign multinationals to declare profits made in high(er) tax jurisdictions within the Irish state.

This is done in order to minimize their tax bills, and as can be seen from the table below, Ireland is an extreme outlier when it comes to taxes on corporate profits.

Table Two – Corporation Tax Levels in Other Western Economies

Country	Rate of Corporation Taxation	Country	Rate of Corporation Taxation
Germany	33%	Spain	30%
France	33.33%	Ireland	12.5%
United Kingdom	20-27%	USA	35%
Italy	31.4%	Australia	30%

Source - http://en.wikipedia.org/wiki/Corporate_tax.

This effectively allows capital to get away with fewer taxes at the same time as it encourages others to drop their own rates. And when Ireland was eventually forced to harmonize its corporate taxes, it chose to lower its rate from the 32% charged to Irish firms to 12 ½% for everyone.

This was by far the lowest rate in Western Europe and it has set up a continent wide *race to the bottom*, as every State tries to offer ‘the kitchen sink’ to attract its share of foreign direct investment.³¹

Over the last ten years almost every EU country has reduced their levels of corporate taxation, and many of the Eastern European countries are now in or around the rates that Ireland charges.³² Capital is the only real beneficiary of this ‘race to the bottom’ and the Irish elites have been at the forefront of this ‘neoliberal turn’, pioneering lower taxes on profits and maximum freedom for capital to move (preferably into Ireland).

Joining the European Union (1973) further cemented this policy as the possibility of 500 million customers added to the allure of Ireland as a European tax haven. The stage was set for a massive inflow of (mostly) US capital, and when the European Monetary Union (EMU) was established in 1990, Ireland was one of its most enthusiastic supporters.

EMU was important for the neoliberals as it forced European governments to cede control of monetary policy to an independent central bank. Prior to this, weaker States had used monetary policy to stimulate their economies and/or devalue their currencies in times of economic hardship.

This allowed them to compete with their more productive rivals, but the inevitable outcome was higher inflation in the European periphery.³³ To guard against this, European bankers devised the European Central Bank (ECB) and the *Growth and Stability Pact* as a way of forcing governments to abide by the rules of neoliberal integration.

Once monetary policy was lost, States would potentially look to fiscal policy (taxes, spending, borrowing etc.) as a way of stimulating their economies. This would have the same inflationary effects the neoliberals wanted to avoid and so they banned governments from running deficits of more than 3%, and overall government debts of more than 60%.

Finally, the EMU forced all the PIGS (Portugal, Ireland, Greece and Spain) to come into the Eurozone at very high rates of exchange. This meant that they were less likely to undermine the core’s (Germany, France, Holland and Belgium) competitiveness, and in order to compete they would have to cut wages or workers conditions (Lapavistas et al 2010).

In the first phase of the Celtic Tiger (1995-2002) this didn’t seem to matter as Ireland’s first move advantage in neoliberalism allowed it to attract over 26% of all US corporations greenfield sites in the European Union (Allen, 2009). At this stage the amount of US capital deployed in Ireland was seven times the European average, and this allowed a major rise in productivity to keep the economy ticking over (ibid).

Irish GDP was rapidly expanding, but the ‘beggar-thy-neighbour’ model eventually ran into difficulties as a combination of US recession (the dot.com bubble bursting) Eastern competition and restricted government (fiscal/monetary policy) resulted in a downturn (2000-2001), along with significantly lower rates of US manufacturing investment (Allen, 2009). The Celtic Tiger was in danger of stalling, and the only way to revive it was to turn to that other plank of neoliberalism, namely financialisation.

Financialisation and minimal taxation

Banking has traditionally been a stronghold of Irish capitalism and membership of the Eurozone allowed the banks almost limitless access to cheap European credit (capital). Instead of attracting real investment with generous tax breaks, Irish capitalism was now *borrowing massive sums to lend to developers*, and by 2008, a culture of light touch regulation and a

lax set of capitalisation rules (how many reserves they must hold) saw the Irish banking system exceed Irish GDP by a factor of nine (ibid).³⁴

The sheer size of the financial system was testament to the extent of neoliberal ideology, as hundreds of billions were allowed to move into Ireland with virtually no supervision. Indeed, a 2004 White Paper on regulation baldly stated that “we will regulate as lightly as possible given the circumstances”, at the same time as the IDA were boasting that the Irish Financial Services Centre (IFSC) had ‘no transfer pricing policy’ and extremely ‘thin capitalisation rules’ (ibid: 42). Having earlier pushed Ireland as a low-tax hub of production, the IDA now championed Ireland as a site of financial speculation, and the express intention was to replace the ailing productive investment with an economy structured around global finance. According to Fintan O’ Toole, the IFSC actually accounted for over 75% of all foreign direct investment in 2005, and by 2003 it had already become the main global location for money market mutual funds (O’ Toole, 2009: 126-27).

The strategy was clearly working and it was encouraged by the fact that the ‘Celtic Tiger’ years were characterised by relatively weak growth on the European continent. European manufacturing was particularly sluggish and this meant that many European capitalists were forestalling real investment in favour of saving and financial speculation. The years that Ireland was expanding its financial sector coincided with a deluge of European savings, and over the six years from 2002-2008, the Irish ruling class turned to a mixture of banking and construction to sustain the illusion of the Irish economic miracle. According to the current governor of the Irish Central Bank (ICB), the increase in assets of the six main Irish banks was simply astronomical, as their balance sheets grew from a collective value of around €85 billion in 1999, to just under €600 billion in 2008 (Honohan, 2009: 218). This is around four times the size of the Irish economy and it effectively meant that Irish banks were borrowing profits taken from around 8 million (European) workers to lend to a population of only two million workers. *The size of the Irish crisis is therefore directly related to the size of the Irish banking system and this in turn is a function of the degree to which the Irish ruling class embraced neoliberal financialisation.* Whilst most businesses face lower prices as they supply more products, banks are in the happy position of actually increasing the ‘general price level’ as they lend out credit. The more they lend, the more people have to spend, and this meant that prices in land and housing actually *tripled* between 1994 and 2007 (ibid: 209). This was a potent signal to all concerned, and between them construction and banking grew to

around 30% of Irish GDP by the height of the construction bubble (Allen 2009). Whilst the Irish elites were making a killing, Irish families were being forced to give up ever greater amounts of their future earnings, and this is confirmed by a Quarterly Bulletin of the ICB which notes that “Irish household indebtedness surged in the years preceding the financial crisis, peaking at €208 billion in 2008 - an increase of around 213% on 2002”.³⁵

This is a classic feature of neoliberalism, and it makes a mockery of the idea that we were all to blame for ‘partying too much’. The reality was that workers were being systematically squeezed as skyrocketing house prices dwarfed any increases in the levels of real wages. Instead of paying back around five times average salary, people were paying back ten years of their wages and as prices were shooting ever higher, it was eminently sensible to try to get a foot on the property ladder.³⁶

It was the combination of light touch regulation, an endless supply of cheap credit and an insatiable greed for profit that caused the Irish property bubble, and the Irish elite significantly compounded this problem by consistently narrowing taxes on enterprise.

Throughout the boom, the Irish government reduced taxes on business activity on the basis that the ‘rising tide’ of private sector wealth would lift the levels of general taxation.

Against the example of many of our European neighbours, Ireland favoured regressive (or flat) taxation on consumption, over progressive taxation on production, and throughout the years of the ‘Celtic Tiger’, it was taxes on foreign goods, (excise duty), Irish consumers (VAT) and Irish property (capital gains and excise duty) that swelled the coffers of the department of finance (Allen, 2009).³⁷

We saw previously that corporations were given massive reductions in taxation from 1998 onwards, and this was mirrored by a cut in the top rate of income taxation from 52% in 1992 to 41% in 2007.³⁸ Charlie McCreevy and Mary Harney championed this (neoliberal) economic philosophy as ‘a reward to enterprise and effort’ - and, as can be seen from the table below, this ensured that general government revenue (as well as the percentage of that revenue coming from the wealthy) was significantly below the EU average

Table Three - General Government Revenue as a % of GDP (2007)

Country	Government Revenue as a % of GDP	Country	Government Revenue as a % of GDP
Austria	47.8	Ireland	36.3
Belgium	49.1	Netherlands	47.3
Denmark	55.3	Sweden	56.1
Finland	52.2	UK	42.5
France	51.2	USA	34
Germany	43.9	OECD average	38.6

Review of Irish Public Services by the OECD in 2007

Ireland actually had the third lowest rate of public sector spending in the entire OECD in terms of GDP - after Mexico and South Korea (Allen 2009) - and it was the lunacy of replacing (relatively) stable taxes on economic activity with one-off property taxes that is a key driver of the current budget deficit. If the State is now unable to pay its workers it is because the elites have allowed themselves to get away with even European levels of taxation. Unlike many of their European counterparts, the Irish ruling class faces (1) no taxation on their accumulated wealth (2) one of the lowest rates of income taxation (3) the lowest rate of corporation taxation and (4) some of the lowest employer social security payments in the European Union. This is a direct legacy of neoliberal policy making and the size of the current economic crisis is a direct legacy of the extent of the liberalisation of the Irish economy over the last twenty years.

A Neoliberal Solution to the Crisis of Capitalism

Neoliberalism works by increasing exploitation and credit simultaneously, and we saw earlier, that this had the effect of *displacing the crisis from production into finance at the same time as masking, forestalling and greatly increasing its severity*. This is the general story of the current economic crisis, and Ireland is a particularly good case study of the excesses of finance on an economy that is fundamentally unhealthy.

Like the global economy in the 1970's, Ireland chose to tackle the slowdown of its productive economy with a turn into finance. The second phase of the 'Celtic Tiger' was built on a foundation of 'cheap credit' and the role of the European Union is particularly important in understanding the dynamics of the current crisis. We saw earlier that joining the Eurozone was extremely important for the Irish ruling class as it gave them the ability to tempt US capital with 500 million European consumers. Attracting FDI was the overriding concern, and entering the Eurozone at a high rate of exchange (and the loss of monetary policy) was a price the Irish rich were willing to accept. 'First mover advantage' originally gave the Irish elites a basis for continuing neoliberalism as the economy boomed on the back of US investment. As a low tax economy Ireland had attracted more than a proportionate share of US investment and the first phase of the 'Celtic Tiger' seemed to confirm that neoliberal economics was working successfully. However, the core (particularly Germany) gradually gained competitiveness on the periphery (including Ireland) as European capitalists held down the wages of their workers - and this led to a scenario in which Ireland began to lose its grip on US manufacturing investment (Lapavistas et al, 2010). The costs of EMU were now beginning to outweigh the advantages, and the only way to prolong the 'Tiger' was to take advantage of the access to finance that EMU delivered.

Moving into finance allowed the Irish ruling class to forestall the economic crisis. But the costs were extremely high as the Irish banks became extremely indebted to European Capital (to the tune of over €400 billion) and the State lost key tools of macroeconomic management.³⁹ None of this seemed to matter during the 'Celtic Tiger' as Ireland originally kept up

the illusion of growth (Allen, 2009). The public finances were also (seemingly) healthy, but the underlying problems were merely stacking up. House prices were rising much faster than real wages and there eventually came a point when workers simply couldn't afford the astronomical prices being demanded. Unlike the American case, Irish banks had not been overly exposed to the exotic instruments referred to above (CDO's CDS's etc.). They had, however, lent recklessly into a property bubble, neglecting the usual risk assessment, and giving out loans exceeding 100% of the cost of the properties (Honohan, 2009).

From 2007, it was becoming apparent that the housing bubble was ready to pop, and with the global financial crisis in September 2008, Ireland became one of the major fault-lines in an already badly damaged (capitalist) system. Over the next 18 months the economy went into 'free fall' as all of the underlying problems exploded on the surface. An economy that had relied overwhelmingly on 'cheap credit' was particularly vulnerable to the world-wide 'credit crunch' and the Irish construction sector simply imploded in the face of a collapse in both credit and customers. Over 100,000 construction workers rapidly lost their jobs, and the knock on effects of this drop in employment reverberated around the economy. Pretty soon Ireland had one of the highest rates of unemployment in the EU (14.5%), a public deficit of over 33% and a capitalist class that simply refuses to engage in investment. This has all emerged due to the lunacy of neoliberal capitalism and the institutional factors that allowed us to get into this crisis are putting serious limitations on the way we can get out of it.

We saw earlier that joining the EMU meant that it was no longer possible to stimulate the economy and/or devalue the currency - and this means that the Irish rich have no way out of crisis except by attacking workers to increase 'competitiveness'. European capital is demanding its money back and the Irish ruling class is hell-bent on making sure that it will be cuts in workers living standards that will pay them off. If we accept the logic of capitalism, the cost of the crisis will have to be borne by the most vulnerable in society and Ireland has been a poster boy of 'neoliberal restructuring' since it gave a blanket bank guarantee in September 2008.

Over the last three years there have been savage attacks on pay and conditions; serious cuts in social services and a hate campaign against public sector workers. *Exploitation by the Irish rich has been systematically increasing.* However, it is important to remember that the Irish government has had to consistently get permission from the European

Union, and that increasingly it is the interests of European capital that are taking centre stage. The ECB has blocked all attempts to 'burn the bondholders' (at least until 2013), as this would mean European capitalists accepting losses incurred in the Irish property crash. Under the (supposed) rules of capitalism profit is a return to risky behaviour and risk implies that you could possibly lose.

During the boom European capital saw Ireland as a place to make massive profits, but now that the economy has collapsed they simply won't accept any of the losses. Imagine for example, Volvo decides to retain €1 billion in profits instead of reinvesting it in making cars. This money is then deposited in Deutsche Bank which recycles it to Anglo Irish Bank for interest. It then goes to a big Irish developer who uses it to employ workers to build a housing complex in Leitrim. If this housing complex sells for more than the cost of building it, the developer makes a profit out of which he pays Anglo who then pays Deutsche bank before Volvo eventually gets its share. This chain of causation should also apply if there are losses. But by giving the 'blanket guarantee' the Irish government effectively stepped in at the point at which Deutsche bank should have taken a hit. Instead of this multibillion euro bank being liable for its own gamble, every time a bond (an i.o.u.) comes due, Irish tax payers pay it back. This is the essence of the bank guarantee scheme and when you hear about senior bond holders, junior bond holders, subordinated bondholders, secured and unsecured debt etc., this is all simply related to the amount of risk the different lenders were (supposedly) taking (senior secured debt taking on the least risk and the lowest return, subordinated unsecured debt the most risk and the greatest return).

European capital is thus demanding tomorrow's wages to pay for yesterday's capital and they have been aided and abetted in this by the inherent self-interest of the Irish ruling class. The blanket guarantee was undoubtedly about saving Irish capitalism, but once it was given, it provided the perfect ruse for the ECB to force Irish workers onto the hook for European losses. The 'bank bailout' has so far cost anywhere between €70 and €100 billion⁴⁰, and as the State has been unable to service this debt, it has had to go to the capital markets to get 'financial support'. Given the precarious nature of Irish finances the 'markets' have refused to lend at any rates below 10%, and it is in this context that the ECB and the IMF have been called into 'help'. It is therefore only because we have accepted the losses of the banks that the IMF/ECB can continue to enforce neoliberal austerity - and it is only because the Irish State embraced

neoliberalism that the Irish banks were able to borrow so much in the first place

Even without the banking crisis we have a massive fiscal crisis as the government is only taking in around €34 billion in taxation, at the same time as it costs €52 billion to run the State (McCarthy 2011). This is supposedly a separate issue from the health of the banks, and it allows the government to frame the IMF/EU deal as somehow helping public servants to get their wages. The reality is that the IMF/EU deal is nothing short of extortion, as the European elites momentarily lend money to Ireland (in order to pay them straight back); at the same time as validating their 'loans' as somehow the responsibility of Irish taxpayers. Loan sharks momentarily giving someone money to pay their child's drug debts would be more subtle, and once again we can trace the source of this outrageous scenario to the extent of Irish neoliberalisation.

Economic crises always put a strain on government finances as tax revenues fall (due to the loss of employment) and social welfare increases (for the same reason). However, the sheer scale of the collapse in the Irish fiscal position is directly related to the narrowing of the Irish tax base, the reckless insistence on relying on one-off taxes from the sales of property and the underlying problem of an investment strike by capital. The whole philosophy of reducing public expenditure has left the Irish state with little tax raising capacity and it is this same philosophy which now rules out any increase in corporation tax, taxes on wealth, taxes on higher incomes etc. Just as in the boom times, Irish policy makers are still of the opinion that Ireland will only recover when the rich (both in Ireland and abroad) are encouraged to start reinvesting, and as we saw earlier, Irish capitalism is steadfastly refusing to invest in an economy without economic growth. The real crisis is thus a mixture of an investment strike by those with the power to stimulate the economy and a bankrupt philosophy that believes that we must keep trying to make them reinvest.

Indeed, the entire government strategy revolves around the twin principles of attracting foreign investment and resuscitating Irish capital, and under the auspices of improving our 'competitiveness' they have ramped up neoliberal restructuring in almost every area of public policy. The '*Croke Park Deal*' is explicitly about neoliberalising the public service; the *universal social charge* is designed to shift the burden of taxation onto the poor (it actually gives an increase to millionaires),⁴¹ and the 'McCarthy Reports' are designed to discipline workers to accept their losses, at the same time as privatizing many of the State's productive assets. Naomi

Klein labels this type of attack as a 'shock doctrine' perpetrated by the ruling class when the sheer depth of a given crisis means that people are disoriented to the point that the normal rules don't apply (Klein, 2008). It is therefore time to think courageously about building an alternative 'shock doctrine' to those who are currently wrecking our lives.

Non-Revolutionary Alternatives to Establishment Neoliberalism

One of the most powerful establishment mantras is that 'we must all take the pain of adjustment' as it would be much worse for everyone if we refused to do. Our rulers supposedly hate the idea that Irish workers should pay the price for European speculators, but what choice have we got given the fact that the ECB, the IMF and the EU are lending us the money to pay our doctors and our teachers? This mantra plays on very real fears in order to railroad through an agenda of cuts - and it essentially means continuing to pay back debts of over €250 billion until we are completely bankrupt.⁴² This could only make sense if one felt that by doing so Irish capitalism would be saved, and the real intention is thus to work within the confines of European capitalism in the hope that our paymasters will eventually take pity on us. The Irish ruling class feels completely dependent on its European markets and it is therefore willing to lose any sovereignty that it may have had in order to play by the rules of the ECB. This will undoubtedly bankrupt the State and there are commentators on the 'left' and the 'right' of the political spectrum that are offering alternatives to what might be called the establishment version of neoliberal capitalism.

On the 'right' are celebrity economists such as Morgan Kelly, David Mc Williams and Constantin Gurdgiev who fervently believe in the ideology of free market capitalism. Rather than pinning the blame on the madness of neoliberalism, these so-called experts believe that Ireland can only be saved if it adopts an even more fervent version of free market economics - and they want to repudiate the debts of the Irish State in order to resuscitate the fortunes of Irish capitalism. Like us, they realise that default is the only way to save the country, *but the crucial difference is that any right wing default will necessarily be accompanied by a 50% cut in the levels of government spending*. Morgan Kelly has explicitly spelt this out in the Irish Times,⁴³ and whilst the other two have not been so forthcoming, there is a shared vision of a competitive economy (unencumbered by previous debts) that will allow Ireland to export its way out of crisis.

This model relies on massive cuts in workers living conditions and in effect we would have to close down half the schools and hospitals in the country, slash social welfare by 50%, sack 150,000 public servants and/or cut their pay by up to 50%. Only in this way will the country be spared from going back to the 'markets', and only in this way will Irish capital be freed from the burden of a State that cannot function. Despite their pleas for a 'free market society' these economists are acutely aware of the importance of a functioning State and their vision for the future is an economy that has been liberalised to the point that firms can compete with or without the support of the European Union.

The real agenda is thus to transform Ireland into a low-wage economy that is all but irresistible to foreign direct investors (FDI). This may solve the problem of internal investment, but only at the cost of savage attacks on Irish living standards, as wages would have to be cut by between 50-70% to compete with the likes of Poland and Estonia. This right-wing 'solution' is thus to drive us into economic poverty and besides the obvious social costs, there are serious economic difficulties that have to be contended with. The example of China is now showing that capitalism can only survive with a significant level of *internal demand* as one needs a sizable 'middle class' to sustain the health and education of workers, the infrastructural needs of corporations etc.⁴⁴ If the government sucks the internal demand out of the Irish economy it is likely that young educated workers will flee the country, whilst the rich will quickly pull (the rest of) their wealth out of the State. This is hardly conducive to attracting multinationals and the fragility of the global system means that even savage attacks on Irish workers is no guarantee that multinationals could find foreign consumers to make up for the loss of Irish wages. Be that as it may, the real problem with this strategy is the effect it would have on ordinary people's lives, as it is simply unacceptable that Irish families should have to pay for the crisis of the capitalist elites. Even if capitalism was to be resuscitated, it would be at the cost of the very fabric of Irish society and so we must look to the 'left' of the political spectrum for an acceptable solution.

For some - including much of the trade union bureaucracy - this means engaging in a less stringent form of neoliberal restructuring (extending the IMF loans, smaller cuts to the public service etc.) coupled with the idea of some degree of 'Keynesian style' economic expansion. As we saw earlier, John Maynard Keynes is best remembered as a bourgeois economist who set out to save capitalism from its own internal contradictions. His central message was that capitalism was continually prone to a lack of demand, and that as this became manifest, individual capitalists' would scale back on

their production causing ever deeper economic crises. In this case it was the role of the State to step in to re-stimulate the ailing economy and many on the non-revolutionary 'left' believe that this is the best way to exit a recession.

According to *Unite* economist Michael Taft, for example, Keynes had it right when suggesting that there is no possibility of balancing the budget except by increasing the national income. In his mind it is now time to stop digging ourselves into an ever deeper hole and start using our resources to put the economy back to work" (Taft, 2010: 9). Specifically, Taft recommends engaging in a number of public private partnerships, using the pension reserve fund and redirecting pension fund contributions into 'shovel ready capital programmes' (ibid). This may well seem like a workable alternative, but besides the fact that most of the pension reserve fund has already been earmarked for the IMF bailout fund, the real problem with these suggestions is that they leave the power of private capital absolutely untouched.

Unfortunately for Taft, the Irish ruling class is united behind the idea that we have a 'small open economy' that can only grow through export competitiveness. This means that there is little appetite for any form of Keynesian stimulus and there will be significant resistance to any strategy that attempts to push government investment over government cut-backs. Stimulus packages tend to push up prices (and wages) and this is exactly what the Irish ruling class has set out to combat. For sixty years the Irish elites have linked their fate to their global competitiveness, and there is no sign that the Irish State can be used to improve the position of Irish workers within the framework of Keynesian expansion.

In order to engage in meaningful stimulus one therefore has to look outside the very real constraints of mainstream economic policies. Only in this way can we construct a decent economy for ordinary people and if Taft is essentially right about the need for State led investment, he is wrong to think that this can be done within the parameters of a capitalist economy. We saw earlier that capital is currently on an investment strike, and that it is highly likely that any attempt to engage in stimulus will see much of this capital exiting the country (as the stimulus will have to be paid for). This simply cannot be tolerated and so we end this pamphlet with a look at the socialist alternative to neoliberal cut backs.

The Socialist Alternative to Neoliberal Capitalism

One of the most remarkable aspects of the current crisis is the way that progressive commentators are harangued by the mainstream media. Every time someone from the 'left' tries to argue for alternatives to attacking the vulnerable, they are met with a barrage of abuse and forced to meet questions about how they would solve the crisis when there is simply no money. 'Left wingers' are repeatedly accused of 'economic illiterateness' at the same time as 'right wingers' are given the mantle of 'experts' - and in this context it is easy to forget that it is precisely because there has been a spectacular collapse in *their* right wing economic system that we face the problems that we do. Neoliberal capitalism has proven absolutely incapable of providing a decent society for Irish people, and yet anyone who goes against the logic of the 'markets' is told that they are living in dream land.

This is all part of the Thatcherite strategy of convincing people that there simply is no alternative (TINA), and for those of us who believe in a better future, it is time to take up the mantle of this challenge. The first thing to point out is that anyone who realizes the obscenity of paying billions to speculators at the same time the sick and the young are deprived of resources is infinitely more intelligent than the Ph.D economists' that continually grace our TV screens.

Ordinary people intuitively understand the madness of hurting the vulnerable to pay off the powerful and we must not be taken in by all of the jargon that passes for economic analysis. Indeed, economics frequently degenerates into technical discussions (fiscal deficits, spreads on bond yields etc.) precisely in order to disenfranchise those who want to talk about the human costs of the economics of the establishment. The most obvious example of this is the mantra about the country being 'broke' as a way of rebuffing any progressive solutions to the economic crisis. This is one of the most powerful ruling class strategies, and because of this, it is vitally important that we bring out some of the elemental facts.

The 'problem' of the €18 billion deficit

All of the resources of the Irish State are derived from the economic activity that takes place within Ireland and currently we have an economy of around €150 billion. Of this €150 billion around €34 billion is being collected in taxation and this then leads to the famous problem of the €18 billion deficit as we are told that it costs €52 billion to run the country. Frequently one is led to believe that this is much like a household budget in which the family is spending more than they are earning and so the children must go without to 'balance the books'. In actual fact, it is more like a situation in which one parent earns €150 and only gives €34 to the other for a household that costs €52 to run. In this scenario the second parent must then put the pain of adjustment onto the children and/or borrow from someone else and this is exactly what is happening in Ireland over the last three years.

At the same time as Irish capital engages in investment strike the Irish government has been borrowing from foreign capitalists to run the State.⁴⁵ The fiscal deficit only exists because taxing wealth is never tolerated, and as our borrowing requirements have continually skyrocketed, the 'right' have been eagerly calling for cuts in public spending to reduce our interest payments. What they never tell you is that despite the economic crisis the savings of the Irish rich are actually increasing (from €18.8 billion in 2005 to €24.5 billion for the year ending in 2010).⁴⁶ This means that the elites are storing up their riches whilst the rest of us are suffering - and it is therefore madness to cut back on schools and hospitals whilst the wealthy have resources that they will not use. Instead of closing the deficit by attacking the vulnerable, ordinary people would surely prefer to close the gap by taking resources from those who don't need them. This is the only *sane* solution to the economic crisis and the fact that the government chooses not to do this is a political decision not merely a technical one. This exposes an important truth as *economics is not an abstract academic discipline but the highly political question of who will get the much needed resources that are created within society*. Capitalism answers this question by affirming the interests of the ruling elites, and if we want a better future for our children it is up to ordinary people to resist their logic by engaging in resistance.

All of the solutions being advocated below will require a significant increase in working class struggle, and it is only in this context that 'Right-Wing commentators' will be unable to frame our strategies as naïve or unattainable. Currently we face three major economic crises as the banking

crisis; a crisis of demand and the public deficit interact to drive us ever deeper into recession. According to 'Right' we simply must solve this problem through the 'logic of market' and one of the most infuriating aspects of the crisis has been the way that the neoliberals - having caused the crisis - have used its severity as way of blocking every progressive challenge. It is absolutely scandalous that socialists should be tasked with solving a crisis of capitalism, only to be told that every solution we come up with is impossible within the limits of *their* system.

A perfect example of this is the constant haranguing on the deficit question referred to above. After all, it is only because *their* economic system has collapsed that we have the budget deficit in the first place, and as we saw above, there are perfectly attainable solutions once we are prepared to challenge the power of the capitalists'. Increasing corporation tax would be one way to solve the problem, but as soon as this is put forward as an option there is a chorus of voices proclaiming that all the multinationals will flee the country if we try to make them pay their share. There is never a mention of the hundreds of billions that these corporations made during the Celtic Tiger⁴⁷, or of the obvious point that we can stop this capital from leaving if we impose some elementary capital controls. The point is that this will take a determined response from ordinary people. Working class struggle is absolutely vital if we are to impose more progressive solutions on the ruling class, and to see this we shall look briefly at each of the elements of the crisis in its turn.

The banking crisis

We saw earlier that the extent of the losses in the Irish banking system was directly correlated with the extent of the neoliberalisation of the Irish economy, as billions were taken in from European financial markets and lent out recklessly into a property bubble. Having underwritten this madness with their blanket guarantee the Irish State was effectively making Irish workers' pay back these loans - and the underlying intention was always to rescue Irish capitalism. To date, the banking crisis has cost well over €80 billion, and if that wasn't bad enough the State has lost (the rest of) its economic sovereignty and is no closer to achieving a functioning banking system.⁴⁸ This is largely because the continual recapitalisation is being undermined by the on-going leakage of private savings from the Irish institutions. Over €100 billion left the county in 2010 alone, and recent stress tests on the banks have shown that 73% of this was taken out by corporations.⁴⁹ No matter what strategies we try to implement within their rules, the corporations - fearing that their savings are under threat - will

continue to pull their resources out of a badly damaged economy. This is the trump card for all capitalist corporations and we therefore need to think of some radical solutions.

The first thing we need to do is to establish the principle that we will not pay for their economic crisis. This then means that we should rescind the state guarantee to all bank creditors, whilst protecting Irish workers who may have accumulated savings (up to €100,000). Alongside this we need to immediately stop paying back bondholders who supposedly took risks in order to make profits. There is currently up to €73 billion in outstanding 'debts' and we need to ensure that this goes to those who are suffering the effects of the crisis rather than the faceless vultures who are feeding off their misery. Finally, we need to see the ECB/IMF deal for what it is and *cancel debt repayments* to those institutions that have forced us to take on the debts of their private sector banks.

On the positive side we need to create a 'Good State Bank' that will take over the deposits and performing loans of the private banks, at the same time as seizing all of the assets from developers whose loans are not performing. This would provide us with badly needed social housing and in order to relieve the difficulties of negative equity, we should simultaneously revalue homes to current values and reset mortgages accordingly. Without the profit motive, a 'Good State Bank' will focus on the interests of the Irish people, and this will mean no evictions for the period of the crisis and a credit system geared towards the maximum employment of Irish resources. Getting credit flowing is an absolutely essential part of any modern economy and State control over the banking system would provide huge leverage over the entire economy. Small businesses that provide valuable economic services would find their lines of credit re-opened, but in order to ensure that we can access this credit, we have to move to a second aspect of the economic crisis, namely the lack of effective demand.

The capitalist investment strike and the fiscal deficit

The lasting legacy of Keynesian economics is the idea that 'private investment' can quickly dry up causing a lack of 'effective demand'. Most workers understand that if they are not buying things the economic system cannot remain healthy, but there is a much bigger problem that most of us are only vaguely aware of. As a system based on the production of 'consumption goods' for workers *and* 'investment goods' for capitalists, capitalism needs to create channels for all profits to be productively reinvested. Wages are consumed meeting the daily needs of working people

and so this source of demand is relatively unproblematic. Profits, on the other hand, will only be reinvested if capitalists feel that they can make further profits - and it was in this context that Keynes famously advocated State investment to replace the ailing investment of the private sector during economic crises. Keynes was a defender of capitalism and so traditionally this strategy involved borrowing (from other capitalists) to stimulate the economy and/or printing money to increase the levels of economic activity. Unfortunately, we cannot do either of these things (given that the bond markets have completely shut us out and EMU involves the loss of monetary policy) and so the common consensus is that we must follow the logic of enticing private capitalists to reinvest. The problem of course, is that they have proven themselves singularly unwilling to do this, as fixed capital formation has fallen from €43,359 billion in 2005 to €17,455 billion (this is the flipside of the increase in savings) in 2010.⁵⁰

Whilst the economy badly needs both credit and investment, those with the ability to provide these things are sitting on their hats and/or actively pulling their capital out of Ireland. This simply cannot be allowed to continue and if the neoliberals' have narrowed our options in terms of Keynesian solutions we must be bolder and think about seizing their assets. Some people will undoubtedly balk at the idea of seizing 'private assets'. But let us not forget that capital itself is nothing more than the unpaid work of the working class or that workers have had massive amounts of their wages seized through pay cuts and the like. It is absolutely outrageous that small groups of wealthy investors are currently dictating whether we can have a prosperous future and to ensure that we can get our economy resuscitated, we must make the rich pay for the crisis they have created. Concretely, this means an immediate imposition of capital controls followed by,

- (1) A sizable increase in taxes on corporation profits.
 - (2) The transferral of capital that is not being used productively into social hands.
 - (3) The imposition of a significant Robin Hood tax on the €1,800 billion of financial assets in the IFSC.
 - (4) An immediate end to the tax exile status of the Irish rich
 - (5) An 80% tax rate on incomes over €100,000.
 - (6) A maximum wage of €100,000 in the public service
- And,
- (7) The reclamation of the natural resources off the Irish coast.

Having done all of this the gap in the public finances could easily be closed as so the current budget deficit is relatively unimportant once we have the nerve to seize the assets of those who have caused the economic crisis.

On the positive side we would immediately need to emphasis State led manufacturing alongside a massive public works scheme to get the economy moving again. Ireland has significant potential in the areas of generic pharmaceuticals, quality foods and green energy but we need some State led investment to bring this potential to productive fruition. In addition we need a radical overhaul of the country's health and educational infrastructure. Ireland currently has over 100,000 people with the necessary skills to begin this activity along with a dire need for public hospitals and modern schools. In addition, there should be a mass insulation programme to improve the energy efficiency of Irish buildings and an information technology strategy to roll out broadband across the country. Seizing unused assets can also be used to stimulate the many small businesses that are starved of credit and priority should be given to increasing productive employment and those strategic industries that can provide a sustainable platform for future prosperity.

The basic idea needs to be one of using *all of our resources* (including our people) in order to grow our way out of the economic depression. Only in this way can we banish the scourge of unemployment at the same time as building a more inclusive and prosperous society for our children.

We have to fight

All of this is possible if we begin to challenge the logic of capitalism, but it is vitally important that workers get mobilized in order to give expression to their palpable anger. Concretely, this means people coming together in community and workplace associations that will fight for every job and service at the same time as linking up with the wider struggle against neoliberal austerity. For over three years the ruling class has been organising its own solution to the economic crisis and the longer we allow them to impose this 'solution', the longer there will be needless suffering. Alongside attacks on our wages and conditions, we have seen the retirement age raised from 65 to 68, a massive increase in taxes on the poor (universal social charge) severe reductions in vital services and the proposed imposition of regressive taxation on water and property. *Unlike all of their previous attacks, these (water and property) taxes rely on workers agreeing to pay them and this should be the touchstone for widespread working class resistance.* Irish society is literally crumbling as

funding is pulled from our schools and our hospitals; young people are being driven out of country; children with special needs are left without meaningful assistance; home owners go to bed panicking; mental health is massively deteriorating and - all the while - the economic resources needed to solve these problems are being systematically taken from the country. Capitalism is a horrible system that preaches freedom at the same time as it attempts to constrain the democratic will of millions of people. The power of capital can no longer be allowed to dominate our lives and I will end on the absolutely inspiring example of the democratic revolutions occurring throughout the Arab world.

Since the turn of the year (2011) people all over North Africa and the Middle East have reacted against the massive inequality and political oppression of the neoliberals', rising up to demand 'dignity', 'freedom' and a proper say in the ways that they live their lives. The people of Tahrir square cared little about the technical details of Mubarak's deficits, but they knew they had to fight if they wanted a decent future. This example has now been followed by students in both Spain and Britain; by thousands of workers in Wisconsin (USA), and by millions of workers in Greece and Portugal. All of these groups are firmly rejecting the logic of neoliberal capitalism and it is my sincere hope that Irish people will soon be doing the same. Neoliberalism has proven a disaster for the Irish people and as capitalism sinks deeper into crisis, it is becoming ever more apparent that our lives will only truly improve if we come together to challenge the logic of those who constantly exploit us.

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⁴ The figures for the size of the deficit come from the *McCarthy Report into the Sale of State Assets* - See www.irishpurchasing.com/Mccarthyreport2011.pdf.

⁵ This information was sourced from the department of finance via the IMF country report on Ireland No. 11/109.

⁶ Again see <http://www.centralbank.ie/Pages/home.aspx> - Irish economic statistics 2011 for statistics on Irish GDP.

⁷ See The Fine Gael document *Business Forum: Working Together* for an explicit statement of this position www.finegaele.org/upload/FG_Business_Forum.pdf.

⁸ From 2008 to 2011 the government cut around 15 billion in current and capital expenditure and this policy is set to continue up until 2014 under the detailed suggestions of the *National Recovery Plan*. See www.finance.gov.ie/documents/publications/other/.../natrecplanlatest.pdf for details.

⁹ See www.thejournal.ie/mccarthy-report-sale-of-state-assets-should-focus-on-long-term-growth-124356-Apr2011/ page 6.

¹⁰ According to research done by the University of Sussex a tax of 0.005% on foreign exchange transactions alone could bring in around £26 billion in a form of Robin Hood taxation. This means that the levels of trading in currency amounts to 520,000 billion per year or around £520 trillion. This number dwarfs the size of the global economy which currently stands at around £50 trillion.

¹¹ Neoliberalism is an academic term for the form of capitalism that emerged in the 1980's. We will discuss this more fully below, but for now all one need know is that neoliberalism means more freedom for capital and less freedom for workers.

¹² A credit default swap is essentially a form of insurance that protects the lender if the borrower defaults on a loan. A good example of this can be found in the case of Allied Irish Banks who in June 2011 attempted to burn sub-ordinated bondholders (more risky bonds) by paying them around 10 cent on the euro - only to be told by the *International Swaps and Derivatives Association* that they must pay back the bond holders as the latter had CDS insurance. See <http://uk.reuters.com/article/2011/06/13/uk-alliedirishbanks-idUKTRE75C2LM20110613> for more details.

¹³ See http://prospect.org/cs/articles?article=the_conservative_origins_of_the_subprime_mortgage_crisis for more details.

¹⁴ <http://www.globalissues.org/article/768/global-financial-crisis/The-scale-of-the-crisis-trillions-in-taxpayer-bailouts>.

¹⁵ <http://thevibe.socialvibe.com/index.php/2008/11/10/what-would-it-cost-to-end-world-hunger>.

¹⁶ Strictly speaking, there was one reasonably long period of stability from 1945-73, which we discuss more fully below.

¹⁷ The economy is currently worth around €140-150 billion with 5/6 of its resources currently employed. It therefore stands to reason that it would be around €168-170 billion if everyone were employed.

¹⁸ According to the Economic and Social Research Institute (ESRI) the average worker produces around €80,000 per year in terms of current market prices. If this is a reasonably accurate reflection of value created, one can simply multiply it by 40 years to get a rough estimate of the total value created by an average worker over their lifetime. See <http://www.esri.ie> for more details.

¹⁹ In Marx's writings exploitation has a very definite meaning. Specifically, it refers to the reality that in capitalism a worker always sells his or her ability to work for less than the value that is created with their labour. Imagine a worker sells their ability to work for €500 a week. This is the amount of value that the capitalist must give to purchase the workers ability to produce, and once this has been paid, the capitalist is free to use the worker in any way that they please. Invariably this means making the worker produce more than €500 in the course of the working week and keeping the excess for themselves. If they can extract €1000 in actual work then the value of exploitation is €500 and the rate of exploitation is 100%.

²⁰ Marx's theory of value is essentially a theory of social effort. If using the most advanced technology etc. society is able to make chairs in one hour and tables in two, one table should trade for two chairs - and this will be the value around which market prices fluctuate. If, on the other hand, it takes me ten hours to make a chair using my bare hands, I can hardly expect to receive five tables for my efforts. Prices should reflect the amount of average effort a society needs to put into producing things and this is the basis for Marx's labour theory of value.

²¹ Imagine someone lays out €500 on workers and €500 on capital to make a profit of €500. In this case the total profit is €500 and the rate of profit is €500/€1000 or 50%. If, on the other hand, the capitalist lays out €2,000 - €1,500 on machinery and €500 on workers and makes a profit of €500, the total profit is still €500 but the rate of profit is now €500/€2000 or 25%.

²² See Harman (2009) for a useful summary of this phenomenon.

²³ Writing during the 'Great Depression', John Maynard Keynes was a bourgeois economist who realised that the idea of completely self-correcting markets was damaging for the survival of the capitalist system. Rather than understanding capitalism as a system that continually tends towards equilibrium, Keynes argued that demand would often fall below supply and that the government should therefore

intervene to replace the demand of private capitalists (investment) with the public demand of the government. See Keynes (1997) for the classic statement of this position and the chapter on 'Non-Revolutionary Solutions' in this pamphlet for more details.

²⁴ The reason for this was simple - there was never any need for the government to replace private investment as capitalism was relatively healthy during the long boom.

²⁵ See for example, Alemi and Foley (1997), Moseley (1997), Wolff (2003), Brenner (2006) and Harman (2007).

²⁶ It is important to point out that profit rates never recovered to the rates of the Golden Era - again see Harman (2009).

²⁷ http://ec.europa.eu/economy_finance/db_indicators/ameco/index_en.htm.

²⁸ This success has been built on the growth in exports of goods (not services), with China exporting 9.6% (\$1202 billion) and Germany 9% (\$1121 billion) of all global goods in 2009. Moreover, according to the *German Institute for Economic Research*, Germany has had a trade surplus of over 5% since 2002, whilst China has a current account surplus of around \$300 billion a year. See

http://www.diw.de/sixcms/media.php/73/diw_wr_2010-31.pdf for more details on Germany and <http://www.chinability.com/CurrentAccount.htm> for details on China.

²⁹ See <http://www.merriestreet.ie/wp-content/uploads/2011/05/IDA-Ireland-and-US-Investment.pdf> for more details.

³⁰ Ibid.

³¹ It is now widely forgotten that until 1998 the standard rate of taxation in Ireland was around the EU average and that it only fell in stages (around 4% a year) between 1998 and 2003. See <http://www.lowtax.net/lowtax/html/jirdctx.html> for more details.

³² See http://papers.ssrn.com/sol3/papers.cfm?abstract_id=869374 for more details.

³³ If you make your currency less valuable everything will become more expensive. This causes inflation which is bad for the rich as it causes their commodities to become less 'competitive' and eats into the value of the loans they have lent to others.

³⁴ It is important to note that this represents the entire banking system as opposed to the six banks guaranteed under the guarantee scheme.

³⁵ See www.financialregulator.ie/publications/.../CBANK-Q4-REPORT.pdf page 68 for more details.

³⁶ According to the New National Housing and Planning Advice Unit house prices have gone from around four times average earnings in 2000 to around ten times average earnings in 2007. See <http://www.thisismoney.co.uk/mortgages-and-homes/house> for more details.

³⁷ Regressive taxation is a flat tax paid by everyone no matter what their income levels. In Ireland we all pay 21% value added tax on consumption and this makes up around 35% of the total tax take. This is clearly unfair as it affects the poor

disproportionately and in line with our neoliberal economy Ireland has one of the highest rates of VAT in the EU.

³⁸ Table 42.2 Individual Income Taxes in the OECD SOURCE: James Gwartney and Robert Lawson, *Economic Freedom of the World* (Vancouver: Fraser Institute, 2007), as updated to 2007 by the authors. Data includes the national and average subnational tax rates.

³⁹ According to the Bank for International Settlements the Irish banking sector owes €130 billion to German banks, €113 billion to banks in the UK and over €55 billion to French banks. These are the three biggest exposures but the total amount is up to €433 billion. See <http://thepressnet.com/2011/04/04/german-and-french-banks-call-the-shots> for more details.

⁴⁰ http://www.esri.ie/irish_economy.

⁴¹ See Michael Taft's piece 'The Creepy Millionaires Budget' for more details on the universal social charge

<http://notesonthefront.typepad.com/politiceconomy/2010/12/the-creepy-is-in-the-detail-which-the-government-didnt-reveal-social-welfare-rates-will-fall-by-4-percent-exc.html>.

⁴² This figure comes from Morgan Kelly's Irish Times article; 'Ireland's future depends on breaking free from bailout'. See <http://www.irishtimes.com/newspaper/opinion/2011/0507/1224296372123.html> for more details.

⁴³ (ibid).

⁴⁴ There is a whole host of articles on the importance of internal demand for balanced development. See for example the International Monetary Funds Survey of the Asian economies @ <http://www.imf.org/external/pubs/ft/survey/so/2011/CAR032211A.htm>.

⁴⁵ Strictly speaking this practice ended in November 2008 when the state could no longer find capitalists' that would lend to them. Now we are getting our loans from the IMF and the EU who are charging us 5.8% for the privilege.

⁴⁶ Department of Finance - Ireland Selected Economic Indicators Table 1.

⁴⁷ See <http://paddyhealy.wordpress.com> for numerous interesting details about the wealth of the Irish ruling class.

⁴⁸ Numbers like €80 billion are so astronomical that it is worth thinking about this in more concrete terms. In effect, the Irish people are being asked to pay back €1 million every day for the next 220 years. Imagine all of the schools, hospitals and home help that this would provide in a more sane economic system.

⁴⁹ See <http://enoughcampaign.org/2011/04/14/why-does-ireland-need-a-bailout-from-the-imf> for more details.

⁵⁰ Fixed capital formation is essentially capitalist investment in productive assets. See the IMF country report on Ireland No. 11/109 for more details

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GHANA International Socialist Organisation isogh@hotmail.com

GREECE Socialistiko Ergatiko Komma www.sekonline.gr sek@otenet.gr

ITALY Comunismo dal basso www.dalbasso.cjb.net dalbasso@hotmail.com

NETHERLANDS Internationale socialisten www.socialisme.nu info@socialisme.nu

NEW ZEALAND Socialist Worker <http://unityaotearoa.blogspot.com> socialist-worker@pl.net

NIGERIA Socialist Workers League socialistworkersleague@gmail.com

NORWAY Internasjonale Sosialister www.intsos.no intsos@intsos.no

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international-socialist-pakistan@yahoo.com

POLAND Pracownicza Demokracja www.pracowniczademokracja.org pracdem@go2.pl

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After three years of persistent stagnation, the global economy is facing its deepest crisis since the 1930's. Governments across the world have unsustainable levels of debt, unemployment is rife and investment in the real economy is virtually non-existent.

Challenging the explanations of the economic mainstream, Brian O' Boyle argues that the roots of this crisis go right to the heart of the capitalist system. Arguing that capitalism relies overwhelmingly on an acceptable rate of profit, he locates the seeds of the current crisis in the neoliberal restructuring of the late 1970's. For thirty years the ruling class has been on the offensive, attacking the living conditions of the working class and rolling back the state's ability to collect taxation. This was done in order to revive profitability, and the results have been a massive redistribution of the world's wealth towards those with capital.

Today's debt crisis is a direct result of this neoliberal restructuring and the result is an economy that simply cannot function.

Having outlined the main parameters of the global crisis, Brian goes on to situate the Irish economic crash within the crisis of neoliberalism. Far from being caught in the eye of a perfect storm, Ireland was one of the pioneers of free market economics - and it is the extent of the neoliberalisation of the Irish economy that accounts for the depth of the Irish crisis.

The primary reason for the country's difficulty is the imposition of the banker's losses. This has already cost Irish taxpayers over €100 billion and only a cancelling of the EU-IMF deal can get the economy moving again. Any real solution to the economic crisis will inevitably challenge the 'logic of the market' and the rallying call for workers across the world should now be to 'Cancel the Debt' and 'Take Back the Wealth'.

Brian O' Boyle is a professional economist who works at St Angela's College Sligo. He was a founding member of the Sligo Workers Alliance which campaigns against ongoing attacks on public sector workers. He is also a leading member of the Socialist Workers Party and the United Left Alliance.

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